2. Own Funds and Capital

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2.1. Characteristics of the eligible capital resources

The following are considered for the purpose of calculating the minimum capital requirements under the solvency regulations: the elements and instruments corresponding to Tier 1 capital, which is defined as the sum of Common Equity Tier 1 capital (CET1) and additional Tier 1 capital (AT1), as defined in Part Two, Title I, Chapters I to III of the CRR, as well as their corresponding deductions, in accordance with articles 36 and 56, respectively.

Also considered are the elements of Tier 2 capital defined in Part Two of Chapter IV, section I of the CRR. The deductions defined as such in section II of the same Chapter are also considered.

In line with the stipulations of the solvency regulation, Common Equity Tier 1 capital essentially comprises the following elements:

a. **Capital and share premium:** this includes the elements described in article 26 section 1, articles 27, 28 and 29 of the CRR and the EBA list referred to in article 26 section 3 of the CRR.

b. **Accumulated gains, other reserves and other equity:** in accordance with article 26. 1 c), the gains that may be used immediately and with no restriction to hedge any risks or losses are included.

c. **Other accumulated income:** in accordance with article 26. 1, d), under this heading will be classified mainly the exchange-rate differences and the valuation adjustments associated with the financial assets at fair value through accumulated other comprehensive income portfolio.

d. **Minority shareholdings:** includes the sum of the Common Equity 1 capital instruments of a subsidiary that arise in the process of its global consolidation and are attributable to natural or legal third persons, according to article 84 and subsequent articles of CRR.

e. **Provisional benefits:** the independently verified benefits are included, net of any possible expense or foreseeable dividend previously authorized by the supervisor (following the treatment provided for in Article 5 of Decision (EU) 2015/656 of the ECB.

   Capital is, moreover, adjusted mainly through the following deductions:

f. **Additional value adjustments:** the adjustments originated by the prudent valuation of the positions at fair value are included, as set out in article 105 of the CRR.

g. **Intangible assets:** these are included net of the corresponding tax liabilities, as set out in article 36, section 1, letter b) and article 37 of the CRR. It mainly includes goodwill, software and other intangible assets.

h. **Deferred tax assets:** these are understood to be assets for deferred taxes that depend on future returns, excluding those deriving from temporary differences (net of the corresponding tax liabilities when the conditions established in article 38.3 of the CRR are met), as per article 36.1 c) and article 38 of the CRR, mainly loss carryforwards (LCFs).

   The application of the deduction of deferred tax assets (LCFs) will be carried out progressively during a transitional period that ends in December 2018, as established under current regulation

i. **Reserves at fair value connected to losses or gains by cash flow hedging:** includes value adjustments of cash flow hedging of financial instruments not valued at fair value, including expected cash flows in accordance with article 33 a) of the CRR.

j. **Expected losses versus credit risk adjustments in the advanced model:** the losses arising from the calculation of risk-weighted exposures through the method based on internal ratings are included, as set out in article 36.1 d) of the CRR.

k. **Profit or losses at fair value:** these are derived from the entity's credit risk itself, in accordance with article 33 b) of the CRR.

l. **Direct and indirect holdings of own instruments (treasury stock):**includes the shares and other securities booked as own funds that are held by any of the Group's consolidated entities, together with those held by non-consolidated entities belonging to the economic Group, as set out in article 33. 1 f) and article 42 of the CRR. It mainly includes finance for own shares, synthetic treasury stock and own securities.

m. **Securitisation:** securitisations that receive a risk weighting of 1,250% are included, as set out in article 36.1 k) ii) of the CRR.

n. **Transitional Common Equity Tier 1 capital:** considered as such are unrealized fair value gains and losses, in accordance with articles 467 and 468 of the CRR, as well as all the fair value gains and losses arising from the institution's own credit risk related to derivative liabilities (DVA) under article 33 c).

o. **Qualifying deductions of common equity Tier 1:** this includes the deductions that exceed the additional Tier 1 capital, as described in article 36.1 b) of the CRR.

Additionally, as detailed in the "Regulatory Environment" section, the Entity has decided to apply the transitional arrangements to mitigate the impact on equity of the introduction of IFRS 9, which allows the impact to be recognized progressively during a transitional period of 5 years (2018-2022).

Other deductions that may be applicable are significant stakes in financial institutions and assets for deferred taxes arising from temporary differences that exceed the 10% limit of the CET1, and the deduction for exceeding the overall 17.65% limit of the CET1 according to article 48.2 of the CRR.

As of 31 December 2018, the Group no longer holds interests in financial entities that are not subject to deduction for exceeding the indicated limits (article 49 of the CRR) and, therefore, the standard template of the EBA INS1 shall not be applicable.

In addition, the Group includes as total eligible capital the additional Tier 1 capital instruments defined in article 51, 85 and 484 of the CRR, including the corresponding adjustments, in accordance with article 472 of the CRR:

p. **Equity instruments and issue premiums classified as liabilities:** this heading includes the perpetual contingent convertible securities that meet the conditions set out in article 51 and 52.1 of the CRR.

q. **Elements referred to in article 484.4 of the CRR:** this section includes the preferred securities issued by the Group.

r. **Qualifying Tier 1 capital included in the consolidated additional capital issued by affiliates and held by third parties:** included as additional consolidated Tier 1 capital is the amount of Tier 1 capital from the subsidiaries, calculated in accordance with article 85 of the CRR.

s. **Transitional adjustments of additional Tier 1 capital:** this includes the adjustments considered in article 472 of the CRR as measures established for gradual adoption of the new capital ratios.

Finally, the Group also includes Tier 2 as eligible capital. Combined with what is indicated in Article 87 of the CRR, it is made up of the following elements:

t. **Equity instruments and Tier 2 share premiums:** understood as the funding that, for credit seniority purposes, comes behind all the common creditors. The issues, moreover, have to fulfil a number of conditions which are laid out in article 63 of the CRR.

u. **Amounts of the eligible elements, under article 484:** Tier 2 capital includes the subordinated debt received by the Group that does not meet the conditions set out in article 63 of the CRR, but is acceptable in the transitional regulatory capital under article 484 of the CRR.

v. **Qualifying capital instruments included in the consolidated Tier 2 capital issued by subsidiaries and held by third parties:** these instruments are included under articles 87 and 88 of the CRR.

w. **Adjustment for credit risk:** a calculation is made of the surplus resulting between the allowances for impairment losses on assets and provisions for risks related to exposures calculated as per the IRB Approach on the expected losses, for the part that is below 0.6% of the risk-weighted exposures calculated according to this method.

The Annex available on the Group's website presents the Group's issuance of perpetual contingent convertible securities and issuance of preference shares, which as explained above, form part of additional Tier 1 capital.

This Annex also details the Group's issues of subordinated debt as of December 31, 2018, calculated as Tier 2 capital.

2.2. Amount of capital

The table below shows the amount of total eligible capital, net of deductions, for the different items making up the capital base as of December 31, 2018 and December 31, 2017, in accordance with the disclosure requirements for information relating to temporary capital set out by Implementing Regulation (EU) No. 1423/2013 of the Commission dated December 20, 2013:

Table 6. Amount of capital (CC1) (Million Euros)

Reference to template CC2 (1)	12-31-2018	12-31-2017
a) Capital and share premium	27,259	27,259
b) Retained earnings, other reserves and other equity (2)	23,857	25,511
c) Other accumulated earnings	(7,285)	(8,717)
d) Minority interests	3,809	5,446
e) Net interim attributable profit	3,246	1,436
Ordinary Tier 1 Capital before other reglamentary adjustments	**50,887**	**50,935**
f) Additional value adjustments	(356)	(332)
g) Intangible assets	(8,199)	(6,627)
h) Deferred tax assets	(1,260)	(755)
i) Fair value reserves related to gains o losses on cash flow hedges	35	(193)
j) Expected losses in equity	-	(20)
k) Profit or losses on liabilities measured at fair value	(116)	-
l) Direct and indirect holdings of own instruments	(432)	(278)
m) Securitisations tranches at 1250%	(34)	(39)
n) Temporary CET1 adjustments	(150)	(324)
o) Admisible CET1 deductions	(61)	(26)
Total Common Equity Tier 1 regulatory adjustments	**(10,573)**	**(8,594)**
Other CET1 deductions	**40,313**	**42,341**
p) Equity instruments and share premium classified as liabilities	4,863	5,751
q) Items referred in Article 486 (4) of the CRR	142	142
r) Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row d) issued by subsidiaries and held by third parties)	629	403
Additional Tier 1 before reglamentary adjustments	**5,634**	**6,296**
s) Temporary adjustments Tier 1	-	(1,657)
Total reglamentary adjustments of Additional Tier 1	**-**	**(1,657)**
Additional Tier 1 (AT1)	**5,634**	**4,639**
Tier 1 (Common Equity Tier 1+Additional Tier 1)	**45,947**	**46,980**
t) Equity instruments and share premium	3,768	1,759
u) Amount of the admissible items, pursuant to Article 486	-	-
v) Admissible shareholders' funds instruments included in consolidated Tier 2 issued by subsidiaries and held by third parties	4,409	6,438
Of which: instruments issued by subsidiaries subject to ex-subsidiary stage	37	317
w) Credit risk adjustments	579	601
Tier 2 before reglamentary adjustments	**8,756**	**8,798**
Tier 2 reglamentary adjustments	**-**	**-**
Tier 2	**8,756**	**8,798**
Total Capital (Total capital = Tier 1 + Tier 2)	**54,703**	**55,778**
Total RWA's	**348,264**	**362,875**
CET 1 (phased-in)	11.6%	11.7%
CET 1 (fully loaded)	11.3%	11.0%
TIER 1 (phased-in)	13.2%	12.9%
TIER 1 (fully loaded)	12.9%	12.8%
Total Capital (phased-in)	15.7%	15.4%
Total Capital (fully loaded)	15.5%	15.1%

(1) Reference to regulatory balance sheet headings (CC2), where the different entries were reflected

(2) With the aim of enhance the robustness of the consolidated financial statements, as of December, 31, 2018, the Group has made an accounting policy change that consists in the record on a sole accounting entry of "Retained earnings", of both the booking entries for the reevaluation of monetary assets due to hyperinflation effects, and of the conversion differences generated in the translation of the public statements of the subsidiaries in hyperinflationary economies. Both impacts were being previously recorded in "Other Comprehensive Income". The Group has made this change on accounting policies since, according to NIC8, it provides more reliable and relevant information about the hyperinflationary economies. For more information, see note 1.3 of the Consolidated Financial Statements as of 2018

As of December 31, 2018, the Tier 1 phased-in Capital (CET1) stood at 11.6% (the fully loaded ratio was 11.3%). Excluding the phasing calendar effect in the computability of minority interests and deductions –which increases from 80% in 2017 to 100% in the year 2018–, and including the positive impact of the sale of the BBVA Chile share (+50 basis points), the phased-in CET1 ratio increased by +48 basis points, marked by the generation of the net result of payment of dividends and instruments AT1 payments, and a contained evolution of risk-weighted assets.

Additionally, the phased-in CET1 ratio takes into account the impact of the first implementation of the IFRS 9 standard. In this context, the European Commission and Parliament have established temporary arrangements that are voluntary for the institutions, adapting the impact of IFRS 9 on capital adequacy ratios. The Group has informed the supervisory body of its adherence to these arrangements.

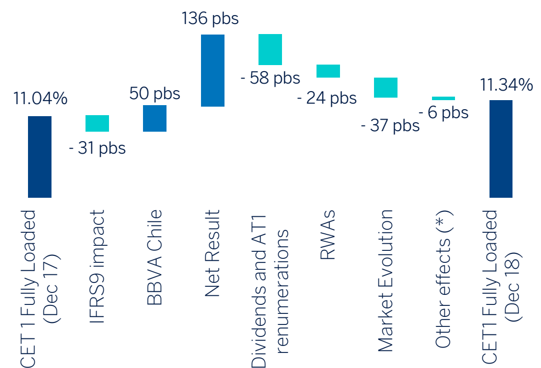
Additionally, transfer of BBVA's real estate business in Spain to Cerberus had no material impact on the ratio (check section 1.1.4.).

At the Tier 1 level, the phased-in ratio is 13.2%, standing out the computation of two new issues of preferred shares, potentially convertible into ordinary shares (CoCos), rated Additional Tier 1 for an amount of 1 billion USD and 1 billion EUR, respectively. Likewise, 1.5 billion USD issue of AT1, which was cancelled early in May, and another for 1.5 billion euros, for which BBVA announced in January 2019 that it will exercise the early redemption option have been stopped from being computed. The net impact of these emissions on the phased-in Tier 1 capital ratio is -26 basis points.

At the Tier 2 level, the Group received authorization in the third quarter from the regulator for the calculation of a subordinated issue of 300 million dollars made in May and the cancellation of the issues made by BBVA Chile after the sale of the share in this entity. The total phased-in ratio is 15.7%, taking into account the effects mentioned above.

Additionally, the Group has continued with its program to fulfil with MREL requirements by closing two public issues of non-preferred senior debt, for a total of 2.5 billion EUR. In terms of MREL (minimum requirement for own funds and eligibility liabilities), as of January 1, 2020, the requirement that BBVA must reach shall be a volume of equity and eligible liabilities corresponding to 15.08% of the total liabilities and equity of its resolution group (BBVA S.A. and its subsidiaries, which belong to the same European resolution group), with data as of December 31, 2016 (28.04% expressed in RWA terms). The Group is currently in line with this MREL requirement.

Chart 2: Capital ratio evolution during 2018



(*) Other effects mainly include the variation on eligible minority interests and other regulatory deductions

These capital levels are above the requirements established by the ECB in its SREP letter and the systemic buffers applicable to BBVA Group for the CET1 ratio in 2018.

On the other hand, risk-weighted assets (RWA) decreased during the year, mainly due to the sale of BBVA Chile and the depreciation of currencies against the euro. The Group has performed three securitisations during the year, including one traditional in June, of a portfolio of consumer finance automobiles loans for an amount of 800 million euros and two other synthetic ones in March and December, for which the European Investment Fund (EIF, a subsidiary of the European Investment Bank) granted a financial guarantee. The positive impact of the three securitisations on capital via the release of risk-weighted assets was 971 million euros. In addition, during the first semester, BBVA received authorisation from the European Central Bank (ECB) to update the calculation of the RWA for structural exchange rate risk under the standard model.

Annex III, available on the Group's website, shows the features of the main capital instruments, in accordance with Implementing Regulation (EU) No. 1423/2013 of the Commission dated December 20, 2013.

The process followed is shown below, the process following for, based on the shareholders' equity reported in the Group's Consolidated Annual Report and by applying the deductions and adjustments shown in the table below, the regulatory capital figure eligible for solvency purposes is arrived at:

Table 7. Reconciliation of the Public Balance Sheet from the accounting perimeter to the regulatory perimeter (Million Euros)

Eligible capital resources	12-31-2018	12-31-2017
Capital	3,267	3,267
Share premium	23,992	23,992
Retained earnings, revaluation reserves and other reserves	22,963	25,443
Other equity	50	54
Less: Treasuy shares	(296)	(96)
Profit or loss attributable to owners of the parent	5,324	3,519
Less: dividend	(975)	(1,043)
Shareholders´ equity	**54,326**	**55,136**
Accumulated other comprehensive income (Loss)	(7,215)	(8,792)
Minority interests (Non-controlling interest)	5,764	6,979
Total equity	**52,874**	**53,323**
Intangible assets	(8,199)	(6,627)
Financing holdings of CET1	(27)	(48)
Indirect holdings of CET1	(109)	(134)
Deductions	**(8,335)**	**(6,809)**
Temporary CET 1 adjustments	0	(273)
Capital gains from the Available-for-sale debt instruments portfolio	0	(256)
Capital gains from the Available-for-sale equity portfolio	0	(17)
Differences from solvency and accounting level	(176)	(189)
Equity not eligible at solvency level	**(176)**	**(462)**
Other adjustments and deductions	**(4,049)**	**(3,711)**
Common Equity Tier 1 (CET 1)	**40,313**	**42,341**
Additional Tier 1 before Regulatory Adjustments	**5,634**	**6,296**
Total Regulatory Adjustments of Aditional Tier 1	**0**	**(1,657)**
Tier 1	**45,947**	**46,980**
Tier 2	**8,756**	**8,798**
Total Capital (Tier 1 + Tier 2)	**54,703**	**55,778**
Total Minimum equity required [1]	**41,619**	**40,370**

(1) Calculated over the minimum total capital applicable at each period

2.3. IFRS9 Transitional Arrangements

Following the guidelines of the EBA (EBA/GL/2018/01), the following is a summary of own funds, principal capital ratios, leverage ratio with and without the application of the transitional provisions of IFRS 9 or ECL analogous.

Table 8. IFRS9-FL: Summary of the own funds, main capital and leverage ratios with and without the application of IFRS9 transitional arrangements or similar Expected Credit Losses (ECL)

Own funds (million euros)	12-31-2018	09-30-2018 [1]	06-30-2018	03-31-2018
CET1 Capital	40,313	38,995	39,550	39,858
CET1 Capital without IFRS9 transitional arrangement or similar ECL	39,449	38,131	38,685	38,753
Tier 1 Capital (T1)	45,947	45,098	45,717	45,987
Tier 1 Capital (T1) without IFRS9 transitional arrangement or similar ECL	45,083	44,233	44,852	44,882
Total Capital	54,703	53,933	54,958	54,384
Total Capital without IFRS9 transitional arrangement or similar ECL	53,839	53,069	54,094	53,276
Risk-weighted assets (million euros)				
Total Risk-weighted assets	348,264	343,053	356,887	358,941
Total Risk-weighted assets without IFRS9 transitional arrangement or similar ECL	348,804	343,272	357,107	358,262
Capital ratio				
CET1 Capital (as a percentage of total exposure to risk)	11.6%	11.4%	11.1%	11.1%
CET1 Capital (as a percentage of total exposure to risk) without IFRS9 transitional arrangement or similar ECL	11.3%	11.1%	10.8%	10.8%
Tier 1 Capital (T1) (as a percentage of total exposure to risk)	13.2%	13.1%	12.8%	12.8%
Tier 1 Capital (T1) (as a percentage of total exposure to risk) without IFRS9 transitional arrangement or similar ECL	12.9%	12.9%	12.6%	12.5%
Total Capital (as a percentage of total exposure to risk)	15.7%	15.7%	15.4%	**15.2%**
Total Capital (as a percentage of total exposure to risk) without IFRS9 transitional arrangement or similar ECL	15.4%	15.5%	15.1%	14.9%
Leverage Ratio				
Total exposure related to leverage ratio	**705,299**	**690,607**	**711,046**	**707,638**
Leverage Ratio	6.5%	6.5%	6.4%	6.5%
Leverage ratio without IFRS9 transitional arrangements or similar ECL	6.4%	6.4%	6.3%	6.3%

(1) The application of article 5 of Decision (EU) 2015/656 of the European Central Bank of 4 February, 2015, implies the inclusion of a dividend of €2,142 million which is the outcome of applying the pay-out ratio of 2017 to the interim profits of September 30, 2018, instead of €1,476 million that reflects the shareholders remuneration's policy announced by BBVA Group. Applying the pay-out announced by the Group, the phased-in CET1 ratio as of September 2018 comes to 11.6% (11.3% fully loaded)

2.4. Bank risk profile

BBVA Group has a general Risk Management and Control Model (hereinafter, the "Model") adapted to its business model, organization and the geographic areas in which it operates. It allows it to operate within the framework of the control and risk management strategy defined by the Bank's company bodies and adapt to an economic and regulatory environment, addressing management globally and adapted to the circumstances at any particular time. The Model establishes a system of risk management that is adapted to the entity's risk profile and strategy.

The risks inherent in the business that make up the risk profile of BBVA Group are as follows:

- Credit and dilution risk: credit risk arises from the probability that one party to a financial instrument will fail to meet its contractual obligations for reasons of insolvency or inability to pay and cause a financial loss for the other party. This includes counterparty risk, issuer credit risk, liquidation risk and country risk.

- Counterparty risk: the credit risk corresponding to derivative instruments, repurchase and resale transactions, securities or commodities lending or borrowing transactions and deferred settlement transactions.

- Credit valuation adjustment (CVA) risk: Its aim is to reflect the impact on the fair value of the counterparty's credit risk, resulting from OTC derivative instruments that are not credit derivatives recognized for the purpose of reducing the amount of credit exposures.

- Market risk: Market risk originates in the possibility that there may be losses in the value of positions held due to movements in the market variables that affect the valuation of financial products and assets in trading activity (trading portfolio). This includes risk with respect to the position in debt and equity instruments, exchange rate risk and commodity risk.

- Operational risk: the risk which can cause of losses due to human errors, inadequate or defective internal processes, inadequate conduct towards customers or markets, failures, interruptions or deficiencies of systems or communications, inadequate management of data, legal risks and, finally, as a consequence of external events, including cyberattacks, fraud committed by third parties, disasters and poor service provided by suppliers. This definition includes legal risk, but excludes strategic and/or business risk and reputational risk.

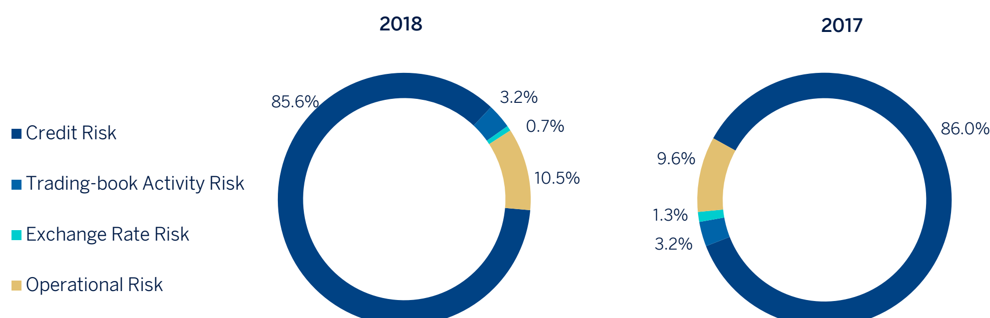
- Structural risks: these are divided into structural interest-rate risk (movements in interest rates that cause alterations in an entity's net interest income and equity value) and structural exchange-rate risk (exposure to variations in exchange rates originating in the Group's foreign companies and in the provision of funds to foreign branches financed in a different currency from that of the investment).

- Liquidity risk: risk of an entity having difficulties in duly meeting its payment commitments, and where it does not have to resort to funding under burdensome terms, which may harm the Group's image or reputation.

- Reputational risk: considered to be the potential loss in earnings as a result of events that may negatively affect the perception of the Group's different stakeholders.

The chart below shows the total risk-weighted assets broken down by type of risk (where the credit risk encompasses the counterparty risk) as of December 31, 2018 and December 31, 2017:

Chart 3: Distribution of RWAs by risk type under Pillar I



(*) Credit Risk includes Risk by CVA adjustment

2.5. Breakdown of minimum capital requirements by risk type

In this section, an overview of risk weighted assets and capital requirements in accordance with article 92 of the CRR are shown.

The total for capital requirements are shown below, broken down by type of risk as of December 31, 2018 and December 31, 2017.

Table 9. EU OV1 Overview of RWAs (Million Euros)

	RWA[1]		Minimum Capital Requirements [2][3]
	12-31-2018	12-31-2017	12-31-2018
Credit Risk (excluding CCR)	**274,256**	**286,368**	**21,940**
Of which the standardised approach [4]	188,158	198,715	15,053
Of which the foundation IRB (FIRB) approach [6]	5,421	7021	433,68
Of which the advanced IRB (AIRB) approach	77,733	76,556	6,219
Of which equity IRB under the simple risk-weighted approach [5]	2,944	4,076	235
CCR	**8,483**	**9,459**	**679**
Of which mark to market	7,065	7,844	565
Of which original exposure	-	-	-
Of which the standardised approach	-	-	-
Of which the Internal model method (IMM)	-	-	-
Of which risk exposure amount for contributions to the default fund of a CCP	41	49	3
Of which CVA	1,377	1,566	110
Settlement Risk	**-**	**-**	**-**
Securitisation exposures in the banking book (after the cap)	**2,623**	**1,751**	**210**
Of which IRB approach	1673	827	134
Of which IRB supervisory formula approach (SFA)	-	-	-
Of which internal assessment approach (IAA)	-	-	-
Of which standardised approach	950	924	76
Market Risk	**13,316**	**16,018**	**1,065**
Of which the standardised approach	5,048	7,408	404
Of which IMA	8,268	8,611	661
Operational Risk	**36,725**	**34,755**	**2,938**
Of which basic indicator approach	5,908	6,204	473
Of which the standardised approach	9,341	10,102	747
Of which IRB approach	21,476	18,449	1,718
Amounts below the thresholds for deduction (subject to 250% risk weight)	**12,862**	**14,525**	**1,029**
Floor Adjustment	**-**	**-**	**-**
Total	**348,264**	**362,875**	**27,861**

(1) Risk-weighted assets according to the transitional period (phased-in).

(2) Calculated on the total capital requirement of 8% (Article 92 CRR)

(3) Under CET 1 requirements (8.4505%) after the supervisory evaluation process (SREP), the requirements amount to EUR 29.43 billion. Under Total Capital requirements (11.9504%), the requirements amount to EUR 41.62 billion

(4) Deferred tax assets arising from temporary differences, which are not deducted from own funds (subject to a risk weight of 250%) are excluded, in accordance with Article 48.4 CRR. This amount is up to EUR 6,549 million and EUR 6,778 million at 31 December 2018 and 31 December 2017, respectively.

(5) Equity, calculated under the simple risk-weighted approach and internal model method, is included. Significant investments in financial sector entities and insurers that are not deducted from eligible own funds (subject to a risk weight of 250%) are excluded, in accordance with Article 48.4 CRR. This amount rises to EUR 6,314 million and EUR 7,747 million as at 31 December 2018 and 31 December 2017, respectively

(6) Exposures under the FIRB method correspond to Specialised Lending, for which the Group has opted for the method of supervisory slotting criteria, in line with article 153.5 of CRR

The table below shows the risk-weighted assets broken down by risk and the capital requirements broken down by type of risk and categories of exposure, as of December 31 2018 and December 31 2017:

Table 10. Capital requirements by risk type and exposure class (Million Euros)

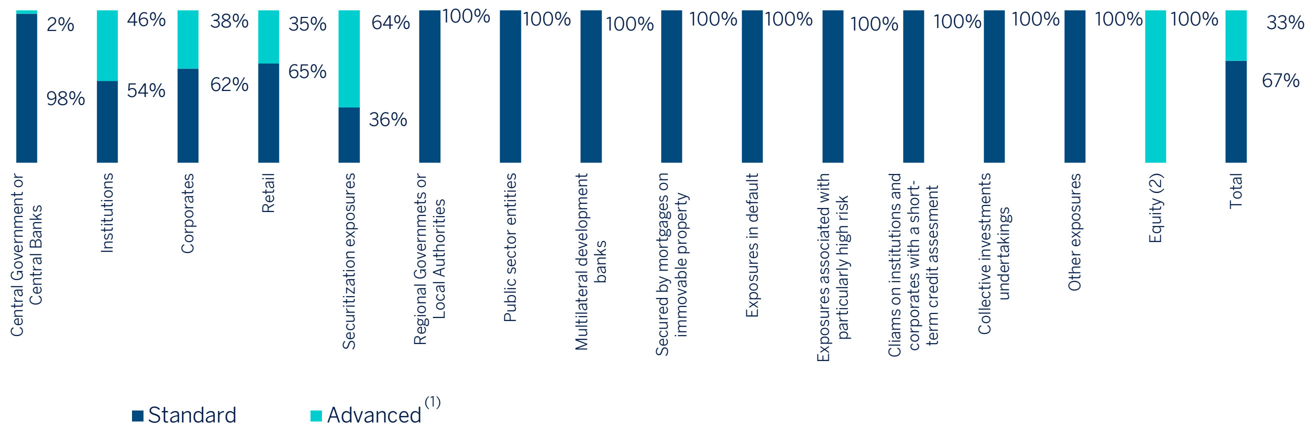
Exposure Class and risk type	Capital requirements (2)		RWAs (1)	
	12-31-2018	12-31-2017	12-31-2018	12-31-2017
Credit Risk	**15,817**	**16,684**	**197,715**	**208,554**
Central governments or central banks	2,445	2,381	30,560	29,759
Regional governments or local authorities	113	100	1,416	1,252
Public sector entities	57	52	714	654
Multilateral development banks	1	1	10	14
International organisations	-	-	-	-
Institutions	496	463	6,203	5,793
Corporates	7,159	7,328	89,481	91,600
Retail	2,941	3,134	36,768	39,177
Secured by mortgages on immovable property	1,237	1,569	15,466	19,609
Exposures in default	333	420	4,159	5,248
Exposures associated with particularly high risk	132	296	1,652	3,694
Covered bonds	-	-	-	-
Claims on institutions and corporates with a short-term credit assesment	0	0	2	5
Collective investments undertakings	5	2	57	24
Other exposures	898	938	11,229	11,725
Securitisation exposures	**76**	**74**	**950**	**924**
Securitisation exposures	76	74	950	924
Total credit risk by standardised approach	**15,893**	**16,758**	**198,665**	**209,478**
Credit Risk	**6,498**	**6,673**	**81,222**	**83,408**
Central governments or central banks	54	94	677	1,172
Institutions	429	474	5,366	5,931
Corporates	4,441	4,531	55,513	56,643
Of which: SMEs	950	804	11,877	10,056
Of which: Specialised lending	506	646	6,330	8,077
Of which: Others	2,984	3,081	37,305	38,510
Retail	1,573	1,573	19,667	19,661
Of which: Secured by real estate property	591	661	7,385	8,268
Of which: Qualifying revolving	555	541	6,938	6,764
Of which: Other SMEs	140	129	1,752	1,612
Of which: Other Non-SMEs	287	241	3,592	3,017
Equity	**1,220**	**1,342**	**15,246**	**16,775**
On the basis of method:				
Of which: Simple approach	647	765	8,085	9,562
Of which: PD/LGD approach	479	396	5,989	4,953
Of which: Internal models	94	181	1,172	2,261
On the basis of nature:				
Of which: Listed instruments	439	433	5,493	5,412
Of which: Not listed instruments in sufficiently diversified portfolios	780	909	9,753	11,363
Securitisation exposures	**134**	**66**	**1,673**	**827**
Securitisation exposures	134	66	1,673	827
Total credit risk by IRB approach	**7,851**	**8,081**	**98,141**	**101,009**
Total contributions to the default fund of a ccp	**3**	**4**	**41**	**49**
Total credit risk	**23,748**	**24,843**	**296,846**	**310,536**
Settlement risk	-	-	-	-
Standardised approach:	222	226	2,776	2,829
Of which: Price Risk by fixed income exposures	155	197	1,940	2,461
Of which: Price Risk by Securitisation exposures	1	2	13	20
Of which: Price Risk by correlation	54	11	670	142
Of which: Price Risk by stocks and shares	11	16	136	197
Of which: Commodities Risk	1	1	18	9
IRB: Market Risk	661	689	8,268	8,611
Total trading book risk	**884**	**915**	**11,044**	**11,439**
Foreing exchange risk (standardised approach)	**182**	**366**	**2,271**	**4,579**
CVA risk	**110**	**125**	**1,377**	**1,566**
Operational risk	**2,938**	**2,780**	**36,725**	**34,755**
Capital requirements	**27,861**	**29,030**	**348,264**	**362,875**

(1) Risk-weighted assets according to the transitional period (phased-in)

(2) Calculated on the total capital requirement of 8% (Article 92 CRR)

A breakdown of the percentage of RWAs calculated according to the standardised approach and advanced approach for each exposure class for credit, counterparty and securitisation risk is shown below.

Chart 4: Breakdown of RWAs by exposure class and approach



(1) Table 27 of the report sets out the models and portfolios authorised by the supervisor for the purpose of their use in calculating own funds.
(2) RWAs in the equity portfolio are calculated according to the methods indicated in article 155 of the CRR

2.6. Procedure employed in the internal capital adequacy assessment process

The Group carries out the internal capital assessment process in accordance with the Capital Requirements Directive 2013/36/EU, in the ECB guide for the ICAAP process published on March 2018, and guidelines on collection of information relating to ICAAP for the purpose of the supervisory review and evaluation process (SREP) published by the European Banking Authority in February 2017.

As part of the internal capital assessment process, the Group assesses and quantifies all the risks that may significantly affect its capital position and extracts a conclusion on its capital adequacy from a holistic medium-term perspective.

The Group applies a proportionate approach that aims to ensure the bank's survival and continuous compliance with all the legal and internal requirements. As well as the regulatory and accounting perspectives, the Group bases its analysis on its capital adequacy position in a sound internal approach that assesses its capital position from an economic point of view that integrates both the quantification of risk capital needs covered in the Basel Pillar I and the needs due to risks not included in it.

The following are some of the points are assessed within the internal capital adequacy assessment process:

- Business and strategy model, describing both the changes planned by the bank in the current business model and its underlying activities such as the relationship between the business strategy and internal capital adequacy assessment.
- Internal governance, risk management and the control framework, reviewing the processes and mechanisms that ensure that the bank has a sound and integrated framework for managing present and future material risks.
- Risk appetite framework, describing the correspondence between this framework and the bank's business strategy and model.
- Identification and assessment of risks (including credit, operational, market, liquidity and other asset and liability risks) and quantification of the capital necessary to cover them, with a quantitative reconciliation between the Pillar I and Pillar II approaches.
- Planning of capital under baseline and stress scenarios, projecting the capital base of the Group, the parent and its main subsidiaries over the next three years and analyzing capital sufficiency in accordance with the regulatory requirements and the internal objectives set out by the entity for the close of the period, also dealing with the planned capital actions.

This internal capital adequacy assessment process concludes with submission to the supervisor of an annual report on the process. The report pays a key role in the review and evaluation methodology applied by the Single Supervisory Mechanism, and is an important element for determining capital requirements under Pillar II.